

Heathrow Express Operating Company Limited

Annual report and financial statements
for the year ended 31 December 2012

Company registration number 03145133

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Heathrow Express Operating Company Limited

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Heathrow Express Operating Company Limited

Officers and professional advisers

Directors

Keith Greenfield
Benjamin Harding
Fidel Lopez
Robert Smallwood

Registered office

The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

Barclays Bank plc
Pall Mall Corporate Banking
50 Pall Mall
London
SW1Y 5AX

Heathrow Express Operating Company Limited

Directors' report

The Directors present their Annual report and the Audited financial statements for Heathrow Express Operating Company Limited (the 'Company') for the year ended 31 December 2012

Principal activities

The Company operates the rail service between Heathrow airport and Paddington, London. The Company's parent, Heathrow Airport Limited ('Heathrow'), is entitled to all receipts and income relating to the Company but the day-to-day operation of Heathrow Express and Heathrow Connect is undertaken by the Company on behalf of Heathrow. For providing these services, Heathrow pays the Company a management fee and reimburses all of its operating costs.

Results and dividends

The profit after taxation for the financial year amounted to £4.6 million (2011: £4.4 million). No dividends were proposed or paid during the year (2011: £nil). The statutory results for the year are set out on page 8.

Review of business and future developments

Key events occurring during the year and developments since the beginning of 2013 are detailed below.

During the year the Heathrow Express service carried a total of 5.56 million passengers and Heathrow Connect passenger carried 0.49 million passengers. The combined passenger number for both services decreased by 2.9% from 6.22 million in 2011 to 6.04 million in 2012 due to an increase in the transfer rate at Heathrow and weaker business travel numbers during the Olympic summer period. Total Heathrow passenger growth was 0.9%, however the through ticket transfer rate (i.e. passengers who have purchased a 'through-ticket' with the airline, therefore never leaving the airport) increased 4.9% to 27.4% (2011: 26.1%), although this measure does not take into account passengers who transfer through the airport without buying a through ticket and are estimated to represent between 7% and 9% of total passengers. This increase in transfer rate decreased the available market, however market share for Heathrow Express remained constant for the year at 11.1% (2011: 11.1%). The operational and customer service performance of the rail service during the Olympics / Paralympics period was excellent.

Heathrow Express operational performance dropped slightly with the Heathrow Express Public Performance Measure ('PPM') 94.1% (2011: 95.3%) and punctuality 90.8% (2011: 91.9%). The PPM for Heathrow Connect was 92.8% (2011: 94.8%). A key driver was Network Rail infrastructure failures, December 2012 in particular, experienced heavy disruptions to the services. The Heathrow Express Quality Service Measure ('QSM') score (Friendliness, Appearance, Availability) increased to 4.25 out of 5.0 (most recent data: Q3 2012) (2011: 4.11) reflecting the positive effect of the Company's investment in both staff and the fleet.

Developments in modernising the fleet continued during 2012, with 7 out of 14 trains completed by the end of the year. This contributed to positive customer feedback reflected on QSM increased score.

In 2013, the Company will continue to focus on delivering a safe and exemplary service to its customers. A complete refresh of the brand will be completed with all customer-facing staff receiving new uniforms, new signage across the estate and the remaining seven trains refurbished.

Directors

The Directors who served during the year, except as noted, are as follows:

Keith Greenfield	
Benjamin Harding	
John Holland-Kaye	Resigned 8 October 2012
Fidel Lopez	Appointed 8 October 2012
Robert Smallwood	

Employment policies

The Company's employment policies are designed to balance the needs of the business, the customer and the employee and to enable it to attract, recruit and retain high performing individuals from the diverse communities that it provides services to.

The Company remains committed to encouraging diversity and fair and consistent practices in all stages of the employee life cycle, from recruitment onwards. The Company's Diversity policy takes account of relevant legislation and full consideration and support is given to employees who become disabled or require flexible working arrangements in order to remain employed.

Opportunities for development and progression are available to all and learning and development activities receive a high priority to continuously improve the performance of individuals and teams and to retain talented individuals.

The Company places great emphasis and allocates substantial resources to ensure that the views of employees are sought and employees are engaged in delivering against business objectives.

Heathrow Express Operating Company Limited

Directors' report *continued*

Employment policies *continued*

Collective consultation takes place with two rail unions, ASLEF (Association of Locomotive Engineers and Firemen) and the RMT (Rail, Maritime and Transport workers union), for a large proportion of the Company's employees. In addition regular formal and informal consultation processes exist for consulting with all employees directly, including working parties, training days for operational employees, employee surveys and line manager briefings.

A number of internal communications tools exist, such as daily newsletters, a company intranet/extranet site and employee briefing processes, the aims of which are to ensure employees have both the knowledge to effectively carry out their day-to-day activities but also to further understand the importance of their actions in achieving financial and service performance targets.

Reward and recognition practices also seek to align individual performance to Company objectives and financial targets for employees, managers and senior managers. Bonuses paid to employees and managers are linked to performance against financial targets.

Supplier payment policy

The Company complies with the UK government's Better Payment Practice Code which states that responsible companies should

- agree payment terms at the outset of a transaction and adhere to them,
- provide suppliers with clear guidance on payment procedures,
- pay bills in accordance with any contract agreed or as required by law, and
- advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company had 5 days purchases outstanding at 31 December 2012 (2011: 5 days) based on the average daily amount invoiced by suppliers during the year.

Risk management

Risk management is a key element of the Heathrow Airport Holdings Limited (formerly BAA Limited) group's (the 'Heathrow Airport Holdings Group') corporate operations. Risk is centrally managed for the Heathrow Airport Holdings Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to the Accounting policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely. The Executive Committee, Board and Audit Committee ('AC') referred to below relate to the Executive Committee, Board and AC of Heathrow Airport Holdings Limited.

Heathrow Airport Holdings Group has updated its approach to risk management and issued a new risk management policy. The Heathrow Airport Holdings Group's risk management process is used to facilitate the identification, evaluation and effective management of the threats to the achievement of the Heathrow Airport Holdings Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that day-to-day activities are managed effectively and all significant business decisions are risk-informed.

The risk management process is evidenced in risk registers which are used as the basis for regular review of risks and their management, up to Executive Committee level. The risk registers are also used to make informed decisions relating to the procurement of insurance cover. The risk management process also supports clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations.

The operation of the risk management process and the individual risk registers are subject to periodic review by the Heathrow Airport Holdings Group's Internal Audit function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

Assurance is provided through reports to the AC, the management reporting processes and a specialist compliance audit function which reports directly to the Sustainability and Operational Risk Committee.

The principal corporate and reputational risks as identified by the Executive Committee are:

Safety risks

Health and safety is a core value of the business and the Company actively promotes the role of safety leadership in creating a safety culture that is intolerant of accidents and incidents.

The Company's Safety Management System includes risk assessment processes for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the Company's business. The Company also operates robust asset management processes to ensure property and equipment remains safe. Governance, led by the senior management teams and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

Heathrow Express Operating Company Limited

Directors' report *continued*

Risk Management *continued*

Security risks

Security risks are regarded as critical risks to manage throughout the Heathrow Airport Holdings Group. The Company mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Heathrow Airport Holdings Group works closely with government agencies including the police and the UK Border Force building a framework to establish joint accountabilities for security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

The Company has a security plan for stations and trains which adhere to regulations laid down by the Government Department of Transport.

Environmental risks

Environmental risk is managed throughout the Heathrow Airport Holdings Group as it has the potential to impact negatively upon the Company's reputation and jeopardise its licence to operate and to grow. The Company controls and mitigates these risks at a number of levels. Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established. The Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The Heathrow Express pay agreement reached in late 2011 established the pay structure for 2011 and 2012. The next pay negotiations are planned for 2013.

Treasury

The Company's financial risk management objectives are aligned with Heathrow Airport Holdings Limited, and also with Heathrow (SP) Limited (formerly BAA (SP) Limited), which is the parent undertaking of the smallest group to consolidate these financial statements and the level at which financial risks for the Company are managed. The treasury policies of the Heathrow (SP) Limited group (the 'SP Group') are set out below.

The Board of the Heathrow Airport Holdings Group approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day-to-day treasury operations on a centralised basis.

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Heathrow Airport Holdings Group's business operations and funding. To achieve this, the Heathrow Airport Holdings Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate and currency risks.

The primary treasury related financial risks faced by the SP Group are

(a) Interest rates

The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2012, fixed rate debt after hedging with derivatives represented 80% of the SP Group's total external nominal debt.

(b) Inflation

The SP Group mitigates the risk of mismatch between its airports' aeronautical income and regulatory asset bases, which are directly linked to changes in the retail prices index, and nominal debt and interest payments by the use of inflation linked instruments.

(c) Foreign currency

The SP Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The SP Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

Heathrow Express Operating Company Limited

Directors' report *continued*

Risk Management *continued*

Commercial and financial risks continued

Treasury continued

(d) Funding and liquidity

The SP Group has established an investment grade financing platform for its airports. This platform supports bank term debt, bank revolving credit facilities including a revolving credit facility, bank liquidity facilities, and sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the AC, the Board and the Executive Committee.

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the SP Group is not exposed to excessive refinancing risk in any one year.

The SP Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under the revolving credit facility. As at 31 December 2012, cash and current asset investments were £38.1 million, undrawn headroom under revolving facilities was £1,693.0 million and undrawn headroom under liquidity facilities was £750.0 million.

(e) Counterparty credit

The SP Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

The SP Group maintains a prudent split of cash and current asset investments across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or current asset investments are placed with counterparties with short-term credit ratings lower than A-2/F1. The SP Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long credit rating below BBB+ (S&P)/A (Fitch).

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

Auditor

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor Deloitte LLP will be proposed within the period set out in section 485 or, Deloitte LLP will be deemed re-appointed where no such resolution is proposed, following the period set out in section 485 in accordance with section 487.

Heathrow Express Operating Company Limited

Directors' report *continued*

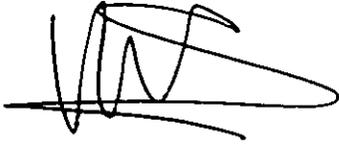
Statement of disclosure of information to the Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

On behalf of the Board

A handwritten signature in black ink, appearing to be 'K. Greenfield', written over a horizontal line.

Keith Greenfield
Director

18 April 2013

Company registration number 03145133

Heathrow Express Operating Company Limited

Directors' responsibilities statement

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

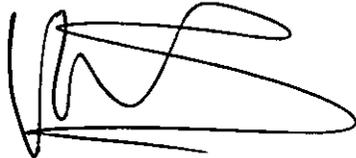
In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



Keith Greenfield
Director

18 April 2013

Heathrow Express Operating Company Limited

Independent auditor's report to the members of Heathrow Operating Company Limited

We have audited the financial statements of Heathrow Express Operating Company Limited for the year ended 31 December 2012 which comprise the Profit and loss account, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Jacqueline Holden, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

18 April 2013

Heathrow Express Operating Company Limited

Profit and loss account for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Turnover		64,900	63,827
Operating costs - ordinary	1	(59,018)	(58,024)
Operating (costs)/gains – exceptional pensions	2	(290)	109
Total operating costs		(59,308)	(57,915)
Operating profit		5,592	5,912
Net interest receivable and similar income	3	219	196
Profit on ordinary activities before taxation		5,811	6,108
Tax charge on profit on ordinary activities	4	(1,252)	(1,673)
Profit on ordinary activities after taxation	11	4,559	4,435

All profits and losses recognised during the current and prior year are from continuing operations

There are no recognised gains or losses for the current or prior year other than those stated in the Profit and loss account and accordingly no Statement of total recognised gains and losses is presented

Heathrow Express Operating Company Limited

Reconciliation of movements in shareholder's funds for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit for the financial year	<i>11</i>	4,559	4,435
Net movement in shareholder's funds		4,559	4,435
Opening shareholder's funds		17,123	12,688
Closing shareholder's funds		21,682	17,123

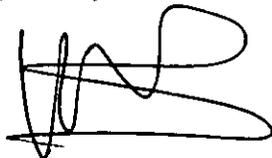
There is no material difference between the historical cost profits and losses and the Profit and loss account

Heathrow Express Operating Company Limited

Balance sheet as at 31 December 2012

	Note	31 December 2012 £'000	31 December 2011 £'000
Fixed assets			
Tangible fixed assets	5	83	77
Total fixed assets		83	77
Current assets			
Debtors	6	26,382	21,820
Cash at bank and in hand	7	946	2,373
Total current assets		27,328	24,193
Current liabilities			
Creditors amounts falling due within one year	8	(5,479)	(7,081)
Net current assets		21,849	17,112
Total assets less current liabilities		21,932	17,189
Provisions for liabilities and charges	9	(250)	(66)
Net assets		21,682	17,123
Capital and reserves			
Called up share capital	10	-	-
Profit and loss reserve	11	21,682	17,123
Total shareholder's funds		21,682	17,123

The financial statements of Heathrow Express Operating Company Limited (Company registration number 03145133) were approved by the Board of Directors and authorised for issue on 18 April 2013. They were signed on its behalf by



Keith Greenfield
Director



Fidel López
Director

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2012

The principal accounting policies applied in the preparation of the financial statements of Heathrow Express Operating Company Limited (the 'Company') are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP'))

Going concern

The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the Heathrow (SP) Limited (formerly BAA (SP) Limited) group (the 'SP Group') which is the smallest group to consolidate these financial statements and the level at which financial risks are managed for the Company.

Consequently the Directors have reviewed the cash flow projections of the SP Group taking into account

- the forecast turnover and operating cash flows from the underlying operations,
- the forecast level of capital expenditure, and
- the overall SP Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, and its forecast financial ratios and ability to access the debt markets.

As a result of the review and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

All revenue was received from Heathrow Airport Limited and represents the costs incurred providing the rail service on behalf of Heathrow Airport Limited plus a 10% management fee, net of VAT.

All fare and commercial revenue is collected on behalf of Heathrow Airport Limited by the Company and transferred directly to Heathrow Airport Limited.

Exceptional items

The Company separately presents certain items as exceptional on the face of the profit and loss account. Exceptional items are material items of income or expense that, because of their size or incidence, merit separate presentation to allow an understanding of the Company's financial performance.

Provisions to recognise the Company's liability to fund the LHR Airports Limited (formerly BAA Airports Limited) defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits Scheme pension related liabilities under the Shared Services Agreement are also treated as exceptional. Refer to the Shared Services Agreement accounting policy.

Interest

Interest payable and interest receivable are recognised in the profit and loss account in the period in which they are incurred.

Tangible fixed assets

Rolling stock and all major assets used by the service are owned by Heathrow Airport Limited and depreciated by it.

Assets owned by the Company are stated at cost less accumulated depreciation.

Depreciation is provided on these operational assets, mainly office and computer equipment, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as follows:

	<i>Fixed asset lives</i>
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Computer software	3 - 7 years

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2012 *continued*

Impairment of assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a significant change in the circumstances underlying the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Company as a lessee

Operating lease payments are recognised as an expense in the Profit and loss account on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Company as a lessor

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as the rental income.

Debtors

Debtors are recognised initially at cost less any provision for impairment.

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists.

Creditors

Creditors are recognised at cost.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Amounts owed to group undertakings

Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2012 *continued*

Pension costs – defined contribution pension scheme

The main pension fund for the Company is a defined contribution group personal pension plan. Pension costs are based on a fixed percentage of salary, up to a maximum of 9.6% for employees, which is agreed at the commencement of their contract and continues to be paid whilst employed by the Company. The costs are charged to the profit and loss account on the basis of costs incurred during the year. This charge is included within ordinary staff pension costs.

As detailed under the Shared Services Agreement, certain employees are members of the LHR Airports Limited defined benefit pension scheme. Full details of this scheme are disclosed in the financial statements of LHR Airports Limited for the year ended 31 December 2012.

Shared Services Agreement ('SSA')

On 18 August 2008, the Company entered into a SSA with LHR Airports Limited by which the latter became the shared services provider of corporate services.

Corporate and centralised services

LHR Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the SSA with a mark-up of 7.5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the Company.

Pension costs – defined benefit pension scheme

LHR Airports Limited sponsors part of the Company's employees under the LHR Airports Limited defined pension scheme while the defined contribution scheme is made available to the remaining employees.

The Company has had an obligation since August 2008 to fund or benefit from its share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities under the SSA. These provisions or assets are based on the relevant share of the actuarial deficit or surplus and allocated on the basis of pensionable salaries. Movements in these provisions or assets are recorded as exceptional items due to their size and nature.

As more than one employer participates in the LHR Airports Limited defined benefit pension scheme and each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the Company accounts for the scheme in accordance with the SSA. Additionally the Heathrow Airport Holdings Limited (formerly BAA Limited) group (the 'Heathrow Airport Holdings Group') discloses information about the total scheme surplus or deficit.

Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and loss account, except to the extent that it relates to items recognised directly in reserves. In this case, the tax is also recognised in reserves.

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

In accordance with FRS 19, *Deferred Tax*, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse.

Share capital

Ordinary shares are classified as equity and are recorded at the fair value of proceeds received, net of direct issue costs. Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Heathrow Express Operating Company Limited

Accounting policies for the year ended 31 December 2012 *continued*

Cash flow statement and related party transactions

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2012. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2012 (parent entity of the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of Heathrow Finance plc (formerly BAA (SH) plc) and Heathrow Airport Holdings Limited for the year ended 31 December 2012. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements (revised 1996)*.

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are wholly owned subsidiaries of FGP Topco Limited.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2012

1 Operating costs – ordinary

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Wages and salaries	18,504	17,564
Social security	1,982	1,841
Pensions ¹	528	491
Other staff related costs	1,576	1,578
Employment costs	22,590	21,474
Maintenance expenditure	16,529	16,474
Utility costs	1,979	1,792
Rents and rates	1,718	1,442
General expenses ²	13,799	14,393
Intra-group charges/other ³	2,367	2,397
Depreciation	36	52
	59,018	58,024

¹ Pension includes £487,000 (2011 £438,000) of pension costs related to the Company's defined contribution pension scheme and £51,000 (2011 £53,000) which are recharges from LHR Airports Limited in relation to the LHR Airports Limited defined benefit pension scheme. Refer to the Accounting policies

² General expenses include the costs for track access to Network Rail, police, insurance and marketing expenditure

³ Intra-group charges were for electricity corporate management fee, IT, car parking and telephones

Rentals under operating leases

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
<i>Operating costs include</i>		
Plant and machinery	234	185
Other operating leases	8,475	8,351

Auditors' remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by LHR Airports Limited and recharged in accordance with the SSA as described within the Accounting policies

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts		
Audit of the Company pursuant to legislation	16	15

Employee information

The average number of employees of the Company during the year was 447 (2011 435)

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2012 *continued*

1 Operating costs – ordinary *continued*

Directors' remuneration

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Directors' remuneration		
Aggregate emoluments ¹	268	168
Value of Company pension contributions to pension schemes	20	14
	288	182

¹ For the year ended 31 December 2012 aggregate emoluments include accrued salaries allowances director fees, pension contributions bonuses and amounts payable under Long Term Incentive Plans ('LTIP')

Keith Greenfield was paid by, but is not a director of, LHR Airports Limited Fidel Lopez was director of a number of companies within the Heathrow Airport Holdings Group, including Heathrow Airport Limited, during the year His remuneration for the year ended 31 December 2012 was apportioned based on services provided to Heathrow Airport Limited and as such is disclosed within its financial statements Robert Smallwood and Ben Harding were paid and are directors of the Company

The directors participate in various Long Term Incentive Performance Cash Plans (the 'Plans') operated by LHR Airports Limited In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on equity and other operational targets over a three year period For the year ended 31 December 2012, the director's remuneration includes £19,000 payable in 2013 (2011 £23,000 paid in 2012) in respect of the 2010 Plans after certain targets were met over the three year period from 2010 to 2012 As the financial performance in respect of the 2011 and 2012 Plans is uncertain at this stage, no value in relation to these awards is included above

2 Exceptional items

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Pension charge/(credit)	290	(109)

During 2012 there was a net exceptional pension charge of £290,000 (2011 £109,000 credit) This includes the Company's share of the movement in the LHR Airports Limited defined benefit pension scheme, the Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities

3 Net interest receivable and similar income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest receivable from group undertaking	217	194
Interest receivable on bank deposits	2	2
Net interest receivable and similar income	219	196

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2012 *continued*

4 Tax on profit on ordinary activities

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Current tax			
Group relief payable		1,189	1,534
Adjustments in respect of prior periods		(176)	428
Total current tax charge		1,013	1,962
Deferred tax			
Origination and reversal of timing differences		227	81
Adjustments in respect of prior periods		(22)	(380)
Change in tax rate		34	10
Total deferred tax charge/(credit)	6	239	(289)
Tax charge on profit on ordinary activities		1,252	1,673

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 24.5% (2011 26.5%)
The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit on ordinary activities before tax	5,811	6,108
Tax on profit on ordinary activities at 24.5% (2011 26.5%)	1,424	1,619
Effect of		
Permanent differences	(13)	(4)
Capital allowances for the year in excess of depreciation	(9)	(10)
Other short-term timing differences	(213)	(71)
Adjustments to tax charge in respect of prior periods	(176)	428
Current tax charge for the year	1,013	1,962

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will change to 23% with effect from 1 April 2013. Other than this change there are no items which would materially affect the future tax charge.

5 Tangible fixed assets

	Plant, equipment & other assets £'000
Cost	
1 January 2012	280
Additions at cost	42
Disposals	(19)
31 December 2012	303
Depreciation	
1 January 2012	(203)
Charge for the year	(36)
Disposals	19
31 December 2012	220
Net book value 31 December 2012	83
Net book value 31 December 2011	77

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2012 *continued*

6 Debtors

	31 December 2012	31 December 2011
	£'000	£'000
Due within one year		
Trade debtors	7,912	6,668
Amounts owed by group undertakings ¹	15,535	11,420
Amounts owed by group undertakings - pensions ²	-	100
Other debtors	2,748	3,206
	26,195	21,394
Due after more than one year		
Deferred tax asset	187	426
Total debtors	26,382	21,820

¹ Amounts owed by group undertakings are repayable on demand and accrue interest at Bank of England base rate +1.5% £11,780,000 (2011: £5,430,000) is owed by Heathrow Airport Limited and primarily represents reimbursement of cost plus management fee. The remaining amount of £3,755,000 (2011: £5,990,000) is owed by LHR Airports Limited due to VAT repayments and other miscellaneous charges.

² During 2012 LHR Airports Limited defined benefit pension scheme went into a deficit position (2011: surplus) and as such its share allocated to the Company sits within Provisions (2011: Debtors - Amounts owed by group undertakings - pensions).

Deferred tax

	£'000
1 January 2012	426
Charged to profit and loss account	(239)
31 December 2012	187

Analysis of the deferred tax asset balances is as follows

	31 December 2012	31 December 2011
	£'000	£'000
Excess of capital allowances over depreciation	57	451
Other timing differences	130	(25)
	187	426

Provision has been made for deferred taxation in accordance with FRS 19, *Deferred Tax*.

The Finance Act 2012 enacted a reduction in the rate of corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013. As a result the Company's deferred tax balances, which were previously provided at 25%, have been re-measured at the rate of 23%. This has resulted in a reduction in the net deferred tax asset of £34,000 with £34,000 charged to the profit and loss account.

7 Cash at bank and in hand

	31 December 2012	31 December 2011
	£'000	£'000
Cash at bank and in hand	946	2,373

Cash at bank and in hand earns interest at floating rates based on daily bank deposits rates and is subject to interest rate risk.

8 Creditors amounts falling due within one year

	31 December 2012	31 December 2011
	£'000	£'000
Bank overdraft	5	3
Trade creditors	167	171
Amounts owed to group undertakings – interest free ¹	26	-
Accruals and deferred income	4,163	5,358
Corporation tax payable	-	257
Group relief payable	405	722
Other tax and social security	561	495
Other creditors	152	75
	5,479	7,081

¹ Amounts owed by group undertakings – interest free largely relates to external payments made by LHR Airports Limited under the SSA on behalf of the Company which will be settled in due course.

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2012 *continued*

9 Provisions for liabilities and charges

	Pension costs £'000
1 January 2012	66
Movement in pensions	184
31 December 2012	250

Pension costs

The closing provision is the share of the net deficit of the LHR Airports Limited defined benefit pension scheme, Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities allocated to the Company

At 31 December 2012, £201,000 represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2011 surplus of £100,000 classified in Debtors – Amounts owed to group undertakings – pensions) The remaining £49,000 (2011 £66,000) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities The movement in the year is mainly due to the LHR Airports Limited defined benefit pension scheme moving from a surplus to a deficit position

10 Called up share capital

	£
Authorised	
At 1 January 2012 and 31 December 2012	
100 ordinary shares of £1 each	100
Called up, allotted and fully paid	
At 1 January 2012 and 31 December 2012	
2 ordinary shares of £1 each	2

11 Reserves

	Profit and loss reserve £'000
1 January 2012	17,123
Profit for the financial year	4,559
31 December 2012	21,682

Heathrow Express Operating Company Limited

Notes to the financial statements for the year ended 31 December 2012 *continued*

12 Commitments and contingent liabilities

Commitments under operating leases

At 31 December 2012, the Company was committed to making the following payments during the next year in respect of operating leases

	31 December 2012		31 December 2011	
	Land & buildings £'000	Other leases £'000	Land & buildings £'000	Other leases £'000
<i>Leases which expire</i>				
within one year	-	35	-	5
within two to five years	285	35	-	35
after five years	199	7,991	457	7,894
	484	8,061	457	7,934

Contingent liabilities

The Company, together with Heathrow Airport Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (formerly BAA (AH) Limited), together the 'Obligors', has granted security over their assets to secure their obligations to the Borrower Secured Creditors under their financing agreements. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

The Company, together with Heathrow Airport Limited, have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of the liabilities of those companies under the Borrower Account Bank Agreement.

13 Ultimate parent undertaking

The immediate parent undertaking is Heathrow Airport Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B V (33.65%) (an indirect subsidiary of Ferrovial, S A, Spain), Qatar Holding Aviation (20.00%) (a wholly owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (13.29%), Baker Street Investment Pte Ltd (11.88%) (an investment vehicle of the Government of Singapore Investment Corporation), Alinda Airports UK LP and Alinda Airports LP (11.18%) (investment vehicles managed by Alinda Capital Partners) and Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2012, which is the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2012.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.